ANNUAL REPORT 1978

CANADIAN TIRE
CORPORATION
LIMITED

Highlights at a glance

Dollars in thousands (except per share amounts)

	1978	1977	Annual Change
Gross operating revenue	**$798,717**	$718,114	11.2%
Pre-tax income	**$ 53,938**	$ 52,240	3.3%
Taxes on income	**$ 25,163**	$ 23,750	5.9%
Income before extraordinary gain	**$ 28,775**	$ 28,490	1.0%
Net income	**$ 29,469**	$ 29,490	(0.1%)
Cash dividends:			
Regular	**$ 6,362**	$ 5,800	9.7%
Special distribution	**$ 4,073**	$ —	—
Income retained and reinvested	**$ 19,034**	$ 23,690	(19.7%)
Per share:			
Income before extraordinary gain	**$ 2.49**	$ 2.50	(0.4%)
Net income	**$ 2.55**	$ 2.59	(1.5%)
Dividends	**$ 0.90**	$ 0.51	76.5%
Shareholders' equity	**$ 21.40**	$ 19.59	9.2%

Sur simple demande, nous nous ferons un plaisir de vous faire parvenir la version française du présent rapport.

CANADIAN TIRE

Canadian Tire Corporation, Limited
Home Office: 2180 Yonge Street,
Toronto, Ontario M4V 2B9

Contents

Board of Directors

A. E. BARRON
Chairman of the Board
President, Canadian General Investments, Limited

A. D. BILLES
President, Bilco Tire Limited, Toronto, Canada
A Canadian Tire Associate Store Owner

A. J. BILLES
Past-President of the Company

A. W. BILLES
President, 839 Yonge Main Store Limited, Toronto, Canada
A Canadian Tire Associate Store Owner

D. E. BROWN
President, Romay Automotive Limited, Ottawa, Canada
A Canadian Tire Associate Store Owner

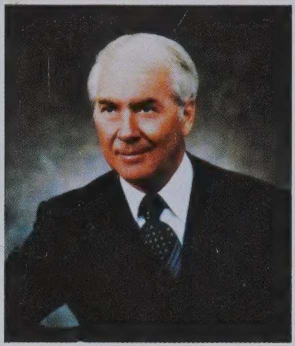
J. W. KRON
Executive Vice-President

R. LAW, Q.C.
Secretary and General Counsel
Partner, Blackwell, Law, Spratt, Armstrong & Grass, Barristers and Solicitors

J. D. MUNCASTER,
President and Chief Executive Officer

A. L. SHERRING, C.A.
Executive, National Trust Company, Limited, Toronto, Canada

D. G. BILLES
President, Performance Engineering, Thornhill, Canada
(Missing from Directors' photos)


A. E. BARRON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A. W. BILLES


D. E. BROWN


J. W. KRON


R. LAW, Q.C.


J. D. MUNCASTER


A. L. SHERRING, C.A.

Officers of the Company

A. E. BARRON, Chairman of the Board

S. J. BOCHEN, Vice-President, Distribution

P. B. EDMONSON, Vice-President, Dealer Relations

J. W. KRON, Executive Vice-President

R. LAW, Secretary and General Counsel

A. B. MALCOLM, Vice-President, Petroleum Marketing

J. D. MUNCASTER, President and Chief Executive Officer

F. Y. SASAKI, Vice-President, Finance and Treasurer

B. SETNOR, Vice-President, Management Information Services

C. D. SMITH, Assistant Treasurer

Registrar & Transfer Agent
National Trust Company, Limited, Toronto, Montreal & Calgary

Solicitors
Blackwell, Law, Spratt, Armstrong & Grass

Bankers
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Chicago City Bank and Trust Company

Auditors
Deloitte Haskins & Sells, Chartered Accountants

J. D. Muncaster
President and chief
executive officer

As previously reported, net income of the Company before extraordinary gain amounted to $28,775,000 or $2.49 per share for the year ended December 31, 1978 — compared with $28,490,000 or $2.50 per share in 1977. In addition, gains on the disposition of assets amounted to $694,000 in 1978 ($0.06 per share) compared with $1,000,000 the year prior ($0.09 per share).

Sales growth restored

During 1978, major emphasis was placed on stimulating sales growth in existing stores through very competitive pricing and revised promotional strategies. These programs were initiated with the distribution of our 1978 Spring & Summer catalogue. Since that time, the momentum of dealer sales has strengthened, with increases upward of 15% reported in five of the most recent six months. These results have been achieved despite fewer openings of new and relocated stores than in the previous year, and with only a modest increase in aggregate price levels.

Consistent with a strengthening sales trend at retail, growth in merchandise shipments to dealers increased as the year progressed. For the year as a whole, consolidated gross operating revenue advanced by 11.2% to $798,717,000.

Corporate operating expenses decreased as a percentage of revenues in 1978. Because of lower average inventory levels during the year and reduced investment in construction and land awaiting development, interest expense — net of interest income — declined in absolute dollar terms.

In addition, all Canadian Tire subsidiaries and divisions reported higher operating earnings, with stronger gasoline markets contributing to significantly improved results for the petroleum marketing division in the second half of the year.

Offsetting these more positive operating factors, however, were substantial reductions in gross margins — essentially the difference between the prices at which merchandise is bought from suppliers and sold to dealers — and the increase in the Company's effective tax rate which resulted from a higher corporate tax rate in Ontario and a reduced inventory tax credit.

Dealer profitability

During the year, the level of profitability of our dealer organization was carefully reappraised. As a result of this analysis, we concluded that a significant number of smaller and/or newer stores were not inherently profitable at their current sales levels. A program was developed whereby improved financing arrangements, reduced rentals or special assistance bonuses would provide an operating environment in which such stores — under good management—would become more profitable. Work continues on the further development of programs to improve the profitability of our smaller stores.

Store expansion . . . capital expenditures

Capital expenditures during 1978 amounted to $32.5-million — a substantial reduction from the record $53.8-million invested in 1977. The 1978 program included the completion of the Mississauga Distribution Centre, purchase of large new computers for the Home Office and Canadian Tire Acceptance, and the completion of three new and eleven relocated stores. Details of these capital expenditures are reported on page 17.

Dividends

In 1978, a special dividend of 35 cents per share was paid to shareholders as a distribution of 1971 Capital Surplus. This dividend did not constitute taxable income to shareholders, but reduced the adjusted cost base of shares for capital gains purposes.

The next quarterly dividend, payable on June 1, 1979, has been declared in the amount of 15 cents per share — an increase from the previous quarterly rate of 14 cents per share.

To the shareholders

Our people

1978 was a year of redirection and transition for the Company — a year in which much progress was made through the efforts and involvement of our people. That progress will be reflected in future years' results. However, profitability per employee declined in 1978 and as a result, although aggregate profit-sharing awards increased, the award per employee declined. We look forward to improving profits as the basis for increased awards in recognition of the diligence and effort demonstrated by the people of Canadian Tire.

Restructuring of management

Since our last Annual Report, a number of senior management changes have occurred. Early in 1979, John W. Kron was elected a Director of the Company and appointed Executive Vice-President with responsibility for all merchandise-related operations, including direction of the marketing function. Steve J. Bochen, previously Vice-President, Personnel, succeeded Mr. Kron as Vice-President, Distribution. In 1978, Barry Setnor joined the Company in the capacity of Vice-President, Management Information Services.

In addition to his primary responsibilities for the operating performance of our associate stores, Peter B. Edmonson, Vice-President, Dealer Relations, has assumed responsibility for the Company's real-estate and construction activities.

This restructuring of management responsibilities, together with the establishment of group merchandising managers for each of our four major product categories, is expected to provide a more closely integrated and highly accountable organization through which Canadian Tire will respond quickly and effectively to changing economic and market conditions.

Outlook for 1979

Although the forecast is for only a modest increase in consumer spending in Canada in 1979, sales of Canadian Tire dealers to the public started the year strongly. Dealer sales are expected to show an increase in excess of 20% in the first quarter. Although this rate of sales increase is unlikely to be maintained throughout the year, we do anticipate growth more rapid than that experienced during the past two years.

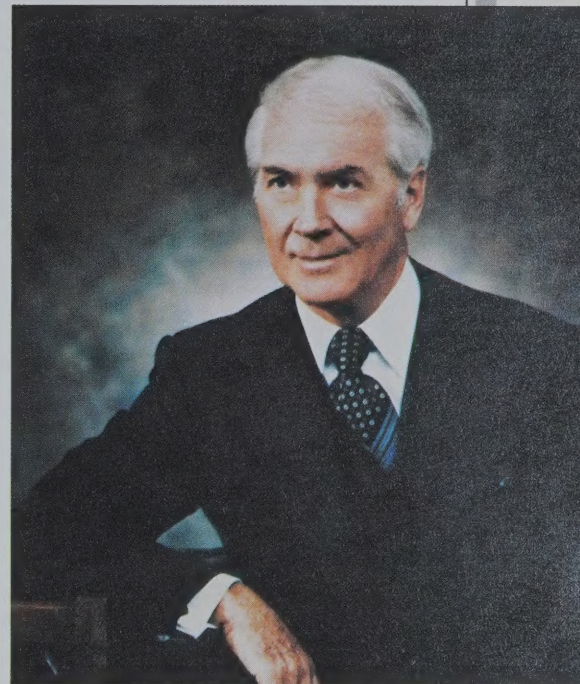
Since dealer inventory levels are well controlled, we expect their sales gains to be translated into comparable growth in merchandise shipments to dealers. With such revenue growth, as well as reduced pressures on gross margins and continuing control of expenses, significant profit improvement is anticipated in 1979.

On behalf of the Board,

Dated April 2, 1979.

Chairman of the Board

President and Chief Executive Officer



Alex E. Barron
Chairman of the Board

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1978 *(with prior year's figures for comparison)*

	(Dollars in thousands) 1978	1977
GROSS OPERATING REVENUE	**$798,717**	$718,114
OPERATING EXPENSES:		
Cost of merchandise sold and all expenses except for the undernoted items	**716,074**	636,612
Depreciation and amortization	**11,876**	11,774
Employee deferred profit sharing and share purchase plans	**4,378**	4,074
Interest:		
Long-term debt	**11,701**	10,533
Medium-term debt of acceptance company	**2,162**	2,033
Short-term financing:		
Acceptance company	**3,495**	2,701
Other	**516**	1,782
Total operating expenses	**750,202**	669,509
	48,515	48,605
Interest income (Note 2)	**5,423**	3,635
INCOME BEFORE INCOME TAXES	**53,938**	52,240
Provision for income taxes:		
Current	**23,293**	22,334
Deferred	**1,870**	1,416
Total provision for income taxes	**25,163**	23,750
Income before extraordinary gain	**28,775**	28,490
Gain on disposals of property (less applicable income taxes: 1978—$17; 1977—$31)	**694**	1,000
NET INCOME FOR THE YEAR	**29,469**	29,490
RETAINED EARNINGS AT BEGINNING OF THE YEAR	**173,575**	149,885
	203,044	179,375
DEDUCT:		
Regular dividends paid:		
Class A shares	**4,464**	4,040
Common shares	**1,898**	1,760
Special distribution of 1971 Capital Surplus:		
Class A shares	**2,866**	—
Common shares	**1,207**	—
	10,435	5,800
RETAINED EARNINGS AT END OF THE YEAR	**$192,609**	$173,575
Earnings per share before extraordinary gain	**$2.49**	$2.50
Earnings per share relating to gain on disposals of property	**.06**	.09
EARNINGS PER SHARE	**$2.55**	$2.59

The accompanying notes, on pages 8 & 9, are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1978 *(with prior year's figures for comparison)*

	(Dollars in thousands)	
	1978	1977
WORKING CAPITAL PROVIDED:		
From operations:		
Income before extraordinary gain	**$ 28,775**	$ 28,490
Items not affecting working capital:		
Depreciation and amortization	**11,876**	11,774
Amortization of debenture discount and issue expense	**80**	74
Amortization of goodwill	**151**	151
Deferred income taxes	**1,870**	1,416
Provided from operations	**42,752**	41,905
Issue of medium-term promissory notes	**—**	5,000
Issue of Sinking Fund Debentures	**—**	39,701
Issue of Class A shares	**5,627**	4,300
Decrease in mortgages receivable	**175**	777
Disposals of property and equipment	**3,564**	2,398
Total	**52,118**	94,081
WORKING CAPITAL APPLIED:		
Additions to property and equipment:		
Land	**2,224**	3,593
Buildings	**16,553**	40,689
Fixtures and equipment	**12,382**	6,535
Automotive equipment	**331**	216
Leasehold improvements	**1,036**	2,814
	32,526	53,847
Increase in long-term portion of income debentures	**809**	3
Decrease in mortgages and notes payable	**1,540**	2,636
Purchase of Sinking Fund Debentures for redemption	**2,400**	500
Regular dividends paid:		
Class A shares	**4,464**	4,040
Common shares	**1,898**	1,760
Special distribution of 1971 Capital Surplus:		
Class A shares	**2,866**	—
Common shares	**1,207**	—
Total	**47,710**	62,786
Increase in working capital for the year	**4,408**	31,295
Working capital at beginning of the year	**143,383**	112,088
WORKING CAPITAL AT END OF THE YEAR	**$147,791**	$143,383

The accompanying notes, on pages 8 & 9, are an integral part of the financial statements.

Consolidated Balance

ASSETS

	(Dollars in thousands) 1978	1977
CURRENT ASSETS:		
Cash and short-term investments— at cost which approximates market value	$ 30,497	$ 33,092
Accounts and loans receivable	81,739	82,394
Merchandise inventories	105,400	73,721
Income taxes recoverable	954	3,384
Income debentures of Canadian Tire dealers— amounts due within one year	1,288	1,095
	219,878	193,686
Acceptance company:		
Charge account receivables	91,233	83,946
Other	1,720	262
Total current assets	312,831	277,894
INVESTMENTS:		
Income debentures of Canadian Tire dealers — less amounts due within one year — at cost	1,823	1,014
PROPERTY AND EQUIPMENT:		
Land	53,825	52,085
Buildings	190,089	174,547
Fixtures and equipment	43,786	34,740
Automotive equipment	6,406	6,223
Leasehold improvements	10,709	9,772
	304,815	277,367
Less accumulated depreciation and amortization	68,826	59,158
Net property and equipment	235,989	218,209
OTHER ASSETS:		
Mortgages receivable	1,782	1,957
Goodwill	606	757
Debenture discount and issue expense	1,232	1,312
Total other assets	3,620	4,026
TOTAL	$554,263	$501,143

The accompanying notes, on pages 8 & 9, are an integral part of the financial statements.

Sheet AS AT DECEMBER 31, 1978 *(with prior year's figures for comparison)*

LIABILITIES AND SHAREHOLDERS' EQUITY	(Dollars in thousands) 1978	1977
CURRENT LIABILITIES:		
Accounts payable	$ 66,073	$ 43,626
Accrued liabilities and coupons outstanding	40,659	38,836
Loans payable to directors and shareholders	1,531	1,605
Current portion of long-term debt	1,238	3,056
	109,501	87,123
Acceptance company:		
Bank loan	759	205
Short-term promissory notes	51,770	39,931
Accounts payable	2,705	6,870
Income taxes payable	305	382
Total current liabilities	165,040	134,511
LONG-TERM DEBT (Note 3):		
Medium-term promissory notes of acceptance company	22,500	22,500
Mortgages and notes payable	4,277	5,817
Sinking Fund Debentures	111,600	114,000
Total long-term debt	138,377	142,317
DEFERRED INCOME TAXES	3,382	1,512
SHAREHOLDERS' EQUITY:		
Share capital (Note 4):		
Authorized:		
15,000,000 Class A non-voting shares without par value		
3,450,300 common shares without par value		
Issued and fully paid:		
8,189,608 Class A shares (1977—7,963,003 shares)	53,963	48,336
3,450,000 common shares	892	892
	54,855	49,228
Retained earnings	192,609	173,575
Total shareholders' equity	247,464	222,803
TOTAL	$554,263	$501,143

Approved by the Board: J. D. MUNCASTER, *Director;* A. L. SHERRING, *Director.*

Notes to the consolidated financial statements

1 Significant Accounting Policies

Principles of consolidation:

The consolidated financial statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries, all of which are wholly-owned.

Merchandise inventories:

Merchandise inventories have been valued at the lower of cost or estimated net realizable value less normal profit margin, with cost being determined substantially on a first-in, first-out basis.

Property and equipment:

Property and equipment are stated at cost. Depreciation is provided under the declining-balance method at various annual rates (buildings—5% & 10%, fixtures and equipment—10% to 20%, and automotive and computer equipment—30%). Amortization of leasehold improvements is provided on a straight-line basis over the terms of the respective leases. A full year's depreciation is provided on all retail stores opened during the year, or under construction at the year end. Depreciation of major warehouse facilities is commenced in the month the facilities are placed into service. Internal development costs, interest and realty taxes pertaining to construction in progress and land held for development are expensed as incurred.

In 1978, the depreciation rates applicable to the Mississauga Distribution Centre were changed from those applied in previous years to reflect more closely the currently anticipated useful life of this facility. As a result of this change, net income has been increased by $450,000.

Goodwill:

Goodwill arising on the acquisition of a subsidiary company is recorded at cost less accumulated amortization which is being provided on a straight-line basis over a period of seven years.

Debenture discount and issue expense:

Debenture discount and issue expense is amortized on a straight-line basis over the terms of the debentures.

Income taxes:

The company accounts for income taxes using the deferral method of tax allocation, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes.

Earnings per share:

The earnings per share figures are calculated using the weighted average number of shares outstanding during the year.

2 Interest Income

Interest income arose from the following sources:

	1978	1977
Advances to dealers	$3,089,000	$2,575,000
Short-term investments	1,711,000	660,000
Mortgages	240,000	285,000
Other	383,000	115,000
	$5,423,000	$3,635,000

Interest earned on charge account receivables of Canadian Tire Acceptance Limited is included in gross operating revenue in the consolidated statement of income and retained earnings.

3 Long-term Debt

Long-term debt comprises the following:

	1978	1977
	(Dollars in thousands)	
Medium-term promissory notes of acceptance company:		
9%, due February 17, 1980	$ 5,000	$ 5,000
9½%, due April 4, 1980	5,000	5,000
10½%, due December 16, 1980	7,500	7,500
9%, due April 15, 1982	5,000	5,000
	22,500	22,500
Mortgages and notes payable — less amounts due within one year	4,277	5,817
Sinking Fund Debentures (unsecured):		
8½% Series A, maturing June 1, 1991	13,100	14,000
9¼% Series B, maturing July 15, 1994	28,500	30,000
10¾% Series C, maturing August 15, 1995	30,000	30,000
10% Series D, maturing August 15, 1997	40,000	40,000
	111,600	114,000
Total long-term debt	$138,377	$142,317

Mortgages and notes payable:

Mortgages and notes payable have been assumed on the acquisition of 15 properties. These liabilities mature at various dates extending to 1999, and bear interest at various rates up to 10%.

Sinking Fund Debentures:

The Sinking Fund Debentures are redeemable, in whole or in part, at various premium rates which decline annually.

Under the Trust Indentures, sinking funds must be provided to redeem principal amounts of each series by annual payments in certain years during which the Sinking Fund Debentures are outstanding, as follows:

Series	Annual Amount	Redemption Period
A	$ 500,000	1979 - 1991
B	$1,500,000	1979 - 1993
C	$1,200,000	1981 - 1994
D	$2,000,000	1983 - 1997

In addition to the mandatory sinking fund requirements, the company annually has the non-cumulative right to make optional sinking fund payments during the retirement period sufficient to retire additional Series A Debentures of a principal amount not in excess of $250,000 and additional Series C Debentures of a principal amount not in excess of $300,000.

The Trust Indentures impose certain restrictions on the company. To December 31, 1978, all of the conditions of the Trust Indentures have been met.

Repayment requirements:

At December 31, 1978, the company had met certain sinking fund requirements of future years. After giving effect to these advance fundings, annual maturities and mandatory sinking fund requirements in respect of long-term debt for each of the next five years are as follows:

1979 . . . $ 1,238,000	1982 . . $ 8,784,000
1980 . . . $20,130,000	1983 . . $ 5,486,000
1981 . . . $ 4,598,000	

4 Share Capital

Issue of Class A Shares:

During 1978, the company issued 226,605 Class A shares for cash in the total amount of $5,627,000. All of these shares were issued in accordance with the conditions below.

Conditions of Class A Shares:

The conditions attached to the Class A shares prohibit the issue of Class A shares unless either:

(a) such shares are being issued to, or for the benefit of, employees of the company, or employees of any subsidiary, or authorized dealers, or the employees of authorized dealers, pursuant to a scheme or plan in existence at such time; or

(b) the authorization of the holders of Class A shares shall first have been obtained.

The holders of Class A shares are entitled to receive a preferential cumulative dividend at the rate of 4 cents per share per annum and, after payment of a dividend on each of the common shares at a similar rate, are entitled to participate, pro rata, in further dividends declared and paid in each year.

Share options:

Under a share option arrangement, certain senior officers engaged directly in the management of the company were granted options to purchase Class A shares of the company. The options are exercisable at any time during a ten-year period from the date granted as follows:

Date Granted	Expiry Date	Price	Number of Shares
February 27, 1970	February 28, 1980	$20.287	14,178
February 26, 1971	February 26, 1981	24.975	20,557
February 29, 1972	February 28, 1982	35.325	18,965
February 28, 1973	February 28, 1983	54.900	17,656
February 28, 1974	February 28, 1984	40.950	20,050
January 2, 1975	January 2, 1985	34.537	46,479
January 2, 1976	January 2, 1986	41.175	38,005
January 3, 1977	January 3, 1987	38.475	31,925
			207,815

The exercise of these share options would have no material effect on the reported earnings per share.

Subsequent to the year end, options to purchase 12,096 shares were exercised for a total option price of $279,000. In addition, options to purchase 47,096 shares were surrendered.

5 Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid, or payable, by the company to the directors and twelve (eleven in 1977) senior officers of the company, as a group, with respect to the fiscal year ended December 31, 1978 was $1,109,000 (1977—$949,000). In addition, the company paid an aggregate amount of $34,000 (1977—$37,000) to the Trustees of the Canadian Tire Deferred Profit Sharing Plan for the benefit of senior officers.

6 Leases

As at December 31, 1978, the company is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) of properties under leases with termination dates extending to 2008. Under sublease arrangements, the majority of these properties are income-producing.

The minimum annual payments required in each of the next five years are as follows:

Year	Minimum Annual Rentals	Year	Minimum Annual Rentals
1979	$4,812,000	1982	$4,246,000
1980	$4,483,000	1983	$3,650,000
1981	$4,253,000		

7 Commitments

As at December 31, 1978, the company had commitments of $4,798,000 for acquisition of properties and expansion of retail store facilities.

8 Anti-inflation Legislation

The company was subject to the anti-inflation legislation enacted by the Government of Canada to provide for the restraint of profit margins, prices, employee compensation and dividends. The company has reviewed its activities on a continual basis and, in the opinion of management, has complied with the intent of the legislation.

Ten-year review of performance

Dollars in thousands *(except per share amounts)*

	1978	1977
Comparative Income Statement		
Gross operating revenue	$ 798,717	718,114
Pre-tax income	$ 53,938	52,240
Taxes on income	$ 25,163	23,750
Income before extraordinary gain	$ 28,775	28,490
Extraordinary gain	$ 694	1,000
Net income	$ 29,469	29,490
Cash dividends	$ 10,435	5,800
Income retained and reinvested	$ 19,034	23,690
Comparative Balance Sheet		
Current assets	$ 312,831	277,894
Investments	$ 1,823	1,014
Net property and equipment	$ 235,989	218,209
Other assets	$ 3,620	4,026
Total assets	$ 554,263	501,143
Current liabilities	$ 165,040	134,511
Long-term debt	$ 138,377	142,317
Deferred income taxes	$ 3,382	1,512
Shareholders' equity	$ 247,464	222,803
Per share*		
Income before extraordinary gain	$ 2.49	2.50
Net income	$ 2.55	2.59
Dividends	$ .90	.51
Shareholders' equity	$ 21.40	19.59
Statistics at year-end		
Number of Associate Stores	314	314
Number of gasoline stations	62	61
Number of Class A shareholders	10,435	10,248
Number of common shareholders	1,450	1,417

**Based on the weighted average number of shares outstanding during the year and adjusted for a 3-for-1 split of May 13, 1970.*

STORES AT YEAR-END BY PROVINCE

	1978	1977
Ontario	178	178
Québec	71	71
Nova Scotia	18	19
New Brunswick	13	13
Newfoundland	9	9
Prince Edward Is.	2	2
Manitoba	9	9
Saskatchewan	9	9
Alberta	5	4
Total	314	314

1976	1975	1974	1973	1972	1971	1970	1969
683,684	561,032	472,323	378,587	309,174	246,758	212,405	180,684
54,698	50,119	44,174	33,020	30,745	25,531	21,172	16,349
26,147	24,843	22,823	16,689	14,763	12,818	11,114	8,615
28,551	25,276	21,351	16,331	15,982	12,713	10,058	7,734
369	517	130	79	118	242	390	118
28,920	25,793	21,481	16,410	16,100	12,955	10,448	7,852
5,175	4,217	3,292	2,944	2,499	2,166	1,928	1,170
23,745	21,576	18,189	13,466	13,601	10,789	8,520	6,632
243,726	209,085	158,973	113,502	98,440	80,756	51,476	40,936
1,011	2,633	5,105	3,715	3,399	6,691	8,241	3,782
177,534	144,256	119,779	92,402	69,893	55,394	47,742	37,506
4,729	2,542	1,533	1,003	1,063	1,484	837	694
427,000	358,516	285,390	210,622	172,795	144,325	108,296	82,918
131,638	99,379	102,096	79,795	58,357	44,787	36,566	29,774
100,453	95,072	46,876	16,361	15,956	15,764	241	—
96	575	—	—	—	—	—	—
194,813	163,490	136,418	114,466	98,842	83,774	71,489	53,144
2.54	2.28	1.95	1.50	1.47	1.18	.95	.75
2.57	2.32	1.96	1.51	1.48	1.20	.98	.76
.46	.38	.30	.27	.23	.20	.18	.11
17.32	14.73	12.43	10.49	9.06	7.74	6.72	5.15
303	295	287	283	269	260	254	245
58	58	54	52	49	45	40	32
10,035	10,060	10,467	10,250	8,626	7,064	5,223	4,021
1,418	1,465	1,528	1,514	1,268	1,188	1,047	947

Statement of Income and Retained Earnings

for the year ended December 31, 1978 *(with prior year's figures for comparison)*

	1978	1977
GROSS OPERATING REVENUE	**$22,559,291**	$19,565,109
OPERATING EXPENSES:		
Interest on borrowed funds:		
Short-term debt	**3,494,660**	2,700,734
Medium-term debt	**2,162,499**	2,033,047
Provision for credit losses	**6,375,745**	5,388,467
Other	**7,356,278**	6,924,278
Total operating expenses	**19,389,182**	17,046,526
INCOME BEFORE INCOME TAXES	**3,170,109**	2,518,583
Provision for income taxes	**1,567,336**	1,209,428
NET INCOME FOR THE YEAR	**1,602,773**	1,309,155
Retained earnings at beginning of the year	**3,905,154**	2,595,999
RETAINED EARNINGS AT END OF THE YEAR	**$ 5,507,927**	$ 3,905,154

The accompanying notes are an integral part of the financial statements.

Board of Directors

A. E. BARRON
J. W. KRON
R. LAW
J. D. MUNCASTER
B. R. WILSON

Officers

V. P. ALOIAN, Vice-President, Management Information Services

P. M. J. d'ANTONIO, Vice-President, Retail and Commercial Operations

P. C. DURNFORD, Vice-President and General Manager

R. LAW, Secretary

A. J. MANTLER, Assistant to Vice-President and Financial Analyst

L. M. MORRISON, Assistant to President and Comptroller

F. Y. SASAKI, Treasurer

B. R. WILSON, President

Statement of Changes in Financial Position

for the year ended December 31, 1978 *(with prior year's figures for comparison)*

	1978	1977
WORKING CAPITAL PROVIDED:		
From operations:		
Net income for the year	$ 1,602,773	$ 1,309,155
Items not affecting working capital:		
Depreciation and amortization	244,757	203,227
Deferred income taxes	87,176	—
Provided from operations	1,934,706	1,512,382
Disposals of property and equipment	8,755	—
Issue of medium-term promissory notes	—	5,000,000
Issue of preference shares	—	3,000,000
Total	1,943,461	9,512,382
WORKING CAPITAL APPLIED:		
Additions to property and equipment	789,050	569,983
Increase in working capital for the year	1,154,411	8,942,399
Working capital at beginning of the year	36,261,044	27,318,645
WORKING CAPITAL AT END OF THE YEAR	$37,415,455	$36,261,044

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

1 Significant Accounting Policies

Charge account receivables: Charge account receivables are due in terms not exceeding twenty-four months and, in accordance with recognized trade practice, are included in current assets.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided under the declining-balance method at annual rates of 20% for office fixtures and equipment and 30% for computer equipment. Amortization of leasehold improvements is provided on a straight-line basis over a period of five years.

Income taxes: The company accounts for income taxes using the deferral method of tax allocation, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes.

Revenue recognition: Discounts on charge account receivables purchased from dealers are taken into revenue at the time the receivables are purchased. The accounts are maintained on a cycle-billing basis, and service charges are accrued each month on balances outstanding at the close of each cycle.

Balance Sheet

ASSETS	1978	1977
CURRENT ASSETS:		
Cash	$ 140	$ 140
Accounts receivable	1,557,038	7,750
Charge account receivables (less allowance for credit losses: 1978—$2,585,751; 1977—$2,320,491)	91,232,676	83,945,902
Due from parent company	1,414	—
Prepaid expenses	163,202	253,941
Total current assets	92,954,470	84,207,733
PROPERTY AND EQUIPMENT:		
Fixtures and equipment	1,723,158	983,019
Leasehold improvements	362,585	336,632
	2,085,743	1,319,651
Less accumulated depreciation and amortization	706,095	475,541
Net property and equipment	1,379,648	844,110
TOTAL	$94,334,118	$85,051,843

The accompanying notes are an integral part of the financial statements.

Notes (cont'd)

2 Short-term Promissory Notes and Bank Loan

The short-term promissory notes of the company are unconditionally guaranteed by its parent company, Canadian Tire Corporation, Limited. The company has available bank stand-by credit to cover its obligation for the repayment of authorized notes outstanding from time to time. In addition, the parent company has guaranteed any bank loan which the company may incur.

Incorporated under the Laws of the Province of Ontario

AS AT DECEMBER 31, 1978 *(with prior year's figures for comparison)*

LIABILITIES AND SHAREHOLDERS' EQUITY	1978	1977
CURRENT LIABILITIES:		
Bank loan (Note 2)	$ 759,000	$ 205,000
Accounts payable	2,705,009	6,869,985
Income taxes payable	305,006	381,849
Short-term promissory notes (Note 2)	51,770,000	39,931,000
Due to parent company	—	558,855
Total current liabilities	55,539,015	47,946,689
MEDIUM-TERM PROMISSORY NOTES (Note 3)	22,500,000	22,500,000
DEFERRED INCOME TAXES	87,176	—
SHAREHOLDERS' EQUITY:		
Share capital:		
Authorized:		
3,000,000 5% non-cumulative preference shares of a par value of $10 each, redeemable at amount paid thereon		
200,000 common shares of no par value		
Issued and fully paid:		
1,060,000 preference shares	10,600,000	10,600,000
100,000 common shares	100,000	100,000
	10,700,000	10,700,000
Retained earnings	5,507,927	3,905,154
Total shareholders' equity	16,207,927	14,605,154
TOTAL	$94,334,118	$85,051,843

Approved by the Board:
B. R. WILSON, *Director;*
J. D. MUNCASTER, *Director.*

3 Medium-term Promissory Notes

Medium-term promissory notes consist of the following:

9%, due February 17, 1980	$ 5,000,000
9½%, due April 4, 1980	5,000,000
10½%, due December 16, 1980	7,500,000
9%, due April 15, 1982	5,000,000
	$22,500,000

The medium-term promissory notes of the company are unconditionally guaranteed by its parent company, Canadian Tire Corporation, Limited.

4 Remuneration of Directors and Senior Officers

The total remuneration of directors and senior officers, as defined in The Business Corporations Act, Ontario, was $259,795 in 1978 (1977 — $289,308).

5 Anti-inflation Legislation

The company was subject to the anti-inflation legislation enacted by the Government of Canada to provide for the restraint of profit margins, prices and employee compensation. The company has reviewed its activities on a continual basis and, in the opinion of management, has complied with the intent of the legislation.

Auditors' report to the shareholders

To the Shareholders of
Canadian Tire Corporation, Limited
Canadian Tire Acceptance Limited

We have examined the consolidated balance sheet of Canadian Tire Corporation, Limited as at December 31, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended (see pages 4 to 9). We have also examined the balance sheet of Canadian Tire Acceptance Limited as at December 31, 1978 and the statements of income and retained earnings and changes in financial position for the year then ended (see pages 12 to 15). Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly a) the consolidated financial position of Canadian Tire Corporation, Limited as at December 31, 1978 and the results of its consolidated operations and the changes in its consolidated financial position for the year then ended, and b) the financial position of Canadian Tire Acceptance Limited as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants

Toronto, Ontario
April 2, 1979

Capital expenditures review

Canadian Tire's capital expenditures in 1978 amounted to $32.5-million of which $15.9-million was invested in store construction and expansion and acquisition of retail store sites. $6.3-million was expended on the completion of Phase III of the Mississauga Centre, bringing the total cost of the distribution complex to $19.5-million. In addition, expanded computer facilities at Home Office, Canadian Tire Acceptance and at other subsidiaries and divisions required the investment of $5.8-million over the year.

Approximately half of the $13.7-million value of store construction—a total of $6.6-million—was carried out by Tantalus Construction Company Limited, our wholly-owned subsidiary with offices in Toronto and Calgary.

Seven store buildings were under construction as the year came to a close—five replacement facilities and two in new markets in Alberta and Saskatchewan.

Two small stores (Norwich, Ontario and Malartic, P.Q.) were closed on expiration of their leases while the Windsor, Nova Scotia store was not reopened after a fire destroyed the building. Customer traffic was successfully absorbed by larger, neighbouring Canadian Tire stores where closures occurred. The closings of these three small stores was balanced by our store openings in three new markets and the total number of Canadian Tire associate stores—314—remained unchanged over the preceding year.

As of 1978, our store planners revised their guidelines for store size relative to the market in which it is to be built—downtrending original dimensions to advance the date at which profitable operations would typically result. Provision for on-site expansion, however, continues to be an integral feature of the design of all our free-standing retail facilities.

Although a significant slowing down of our retail store expansion program had been planned for 1978, expenditures were further restricted by the difficulties we experienced in closing a number of land transactions and obtaining municipal approvals required for the commencement of store construction. Despite these temporary delays, 14 new store buildings were completed during the year—11 relocations of existing units, 3 stores in new markets—and 8 stores were substantially enlarged. One gasoline-dispensing facility was added.

Store openings in 1978—with our new markets indicated by an asterisk*—are listed below:

Ontario
Elliot Lake
Forest
Gananoque
Hagersville
Thunder Bay N.
Toronto-Pickering*
(shown above)

Québec
Rimouski*
St. Eustache
Victoriaville

Alberta
Calgary-Sarcee*

New Brunswick
Moncton

Nova Scotia
Sydney

Newfoundland
St. John's W.
Corner Brook

Computerized inventory-control systems expanded

Computerized point-of-sale system at store cashier's fingertips.

Mississauga Distribution Centre's cubic size doubled in 1978.

Our Management Information Services (MIS) group continued to work directly with dealers to install more effective in-store reporting and order-generation systems. Point-of-sale systems at customer checkout counters—designed to be economically viable for stores of all sizes—now provide 60 dealers with their own computerized inventory-control and accounting systems with the additional, built-in capability for data communication.

At a store's checkout, product numbers are entered by the cashier and an itemized receipt is produced for each customer's purchases. The data is transmitted to an in-store computer which records sales and calculates the stock level of each item—taking into consideration customer demand and seasonal trends.

When stock drops to a predetermined re-order figure, a purchase order is automatically generated on a daily basis and transmitted via data lines to Home Office. When merchandise arrives at the store in response to the data input, receipts are recorded, price tickets are produced automatically and the in-store inventory is adjusted.

The cashier-operated POS system's function also includes price look-up, price error reporting, credit and cheque authorization, financial data and cash controls. Various configurations of POS terminals, data entry terminals and printers have been custom designed for individual store size—ranging from a low of two units per store up to 20.

While the initial thrust of our in-store processing program has been aimed at stock replenishment and more effective inventory management, POS systems' capabilities can be widely broadened in future with modest capital expenditures.

Ongoing development of our "Systems for the 1980s" saw the completion of a broad range of computer applications in the distribution, marketing, dealer relations, accounting and personnel areas of our business.

A new outgoing merchandise system was implemented during the year to improve our distribution facilities' ability to schedule, assemble and ship dealer orders, as well as to improve receiving and pricing procedures at the store.

In our Dealer Relations area, a new on-line data base system was implemented to facilitate analyzing store performance in such key categories as purchasing, stock levels, sales, gross margin and profitability.

New on-line functions were also implemented in Home Office accounting, personnel and marketing departments. These included a general-ledger financial reporting system, a fixed-assets program to streamline capital-cost reporting, an on-line employee data base and financial modelling-and-forecasting "tools" for management planning functions. To keep pace with our expanding on-line systems and data-communication needs, the Home Office computer centre installed an Amdahl V6 II central-processor in combination with several new on-line terminals.

In total, MIS/Dealer Support's continuing program will enhance both service and merchandise availability to our customers across Canada.

Distribution facilities in place for the early '80s

The cubic size of our Mississauga Distribution Centre was more than doubled—to 65-million cubic feet—as Phase III of the storage and retrieval complex was completed late in 1978. While a portion of the low-bay picker building was declared "in service" in our fourth quarter, the operation of the hi-rise stacker building commenced at the beginning of 1979. The automated equipment and computerized systems of these units are fully integrated with installations in earlier phases.

Mississauga's increased capacity provides for the transfer of tire distribution operations from our Sheppard Avenue facility and allows a substantial increase in our tire inventory level for better service to our dealers. By relocating tire-handling operations, Sheppard Avenue in turn has increased its own capacity for distributing merchandise ordered in split carton lots and products requiring more specialized handling techniques.

With our distribution requirements for the next several years now in place, our present reserve capacity is being advertised as public warehousing to help offset fixed expenses. Cantire Distribution Services was formed during the year to promote this aspect of our distribution operation to companies at large.

The size of our transport fleet—one of the largest private carrier systems in the country—was maintained at 481 trailer units and 100 tractors in 1978.

Cost effectiveness of our hauling operation was boosted by such measures as improved weight and cube utilization of trailer bodies, greater back-hauls from suppliers along return routes from dealers, and greater overall flexibility to level out "peaks" in distribution centre activities in Toronto.

To ensure maximum road safety and economy of operation, preventive maintenance and general refurbishment of our transport equipment is now centered at the truck depot opened in Toronto in 1977. The high corporate-image standards set by our transportation division are evident along every major highway along which our fleet operates.

Our Petroleum Division added one gasoline-dispensing facility (Ville Laval, P.Q.) during the year, bringing the total number to 62. Existing stations were brought in-line to supply hi-octane, lead-free gasoline to motorists as it became available from refineries. An IBM 34 minicomputer was installed to provide our petroleum marketing area with computer resources for the first time. The new system will closely control inventories in the field and provide both faster sales reporting and more detailed sales analysis.

Cantire Products Limited, our automotive remanufacturing subsidiary, continued the strong performance of previous years. Increased demand from our auto service centres and parts counters, plus continued penetration of the traditional warehouse distribution field, were major factors in the subsidiary company's increased sales of all remanufactured product lines.

Cantire's carburetor division, Capco, was relocated during the year in a leased 100,000 square foot facility—tripling the production area and providing additional space for better utilization of equipment and personnel. The relocation enabled Capco to double production of remanufactured carburetors over the previous year.

Cantire Products is now one of the largest multi-line remanufacturing companies of automotive components in Canada—offering complete lines of brake parts, electrical components, water pumps, fuel pumps, carburetors and engine heads.

These recycled automotive products are supplied both to Canadian Tire dealers and to outside accounts on an exchange basis—fully guaranteed and at substantial cost savings over equivalent brand new parts.

With a record number and variety of vehicles now entering the automotive aftermarket, Cantire's prospects for continuing growth are most optimistic, particularly at the do-it-yourself consumer level.

Canadian Tire Acceptance Limited added 279,000 customer accounts during the year, ensuring continued strong growth in credit purchases from Canadian Tire stores. Net income increased by 22.4% over 1977—from \$1.3-million to \$1.6-million.

Projecting VALUE to the marketplace

Stencil-cutter in Cantire Display's silkscreen department.

Automatic silkscreen printer at Cantire Display Services.

A principal objective during the year was to stimulate sales growth through existing stores by means of highly-competitive pricing and promotional programs in print and broadcast media. Canadian Tire's overall price leadership was given renewed emphasis by featuring comparison-shopped prices, designated "Total Values", that were the lowest advertised in the market region.

The Total Value concept was given additional impact by our in-store display material and a stepped-up sales flyer program featuring fewer, but lower-dollar-value, items and greater use of colour reproduction. A selection of these specially-priced items on our 1979 Spring & Summer catalogue cover and wrapper—representing each major product category—underlined our Total Value promotion to the shopping public.

Another continuing theme in our print advertising, adapted from the Company's 'You can Do It' musical soundtrack on TV and radio, encourages shoppers to tackle new and do-it-yourself projects with equipment and materials which Canadian Tire dealers supply.

Our market-wide television campaign, in a spot commercial format, began in fall 1978 to heighten shoppers' awareness of the variety of automotive, household and leisure time products available at our stores, as depicted on the cover of this Report.

Surveys reveal that our bold new "advertising look" has reassured customers that Canadian Tire distributes and retails a broad spectrum of items at attractive prices. Results of this strengthened advertising approach were reflected in improved late-season sales.

The efforts of our dealer-service groups—co-ordinated with the hard-sell promotions originated by our marketing and advertising production departments—are central to our overall corporate aim of increasing sales through existing retail units.

The Company consolidated three inter-related dealer-service departments—Display, Plas-Di-Splay and Silkscreen—in a leased, 40,000 square foot building at the beginning of 1978.

Renamed Cantire Display Services, the combined production group was provided with additional space and equipment for producing display and sales promotion material, illuminated showcases, counters and related wooden installations for our stores. In

Bold, new "advertising look" was carried out in print media and television.

furthering our concept of providing a "total service" package to our dealer network, the display group also buys and distributes accessory display fixtures for in-store use.

The Plas-Di-Splay department was originally created to produce plastic-encased displays of products which were difficult to merchandise "on the shelf". In more recent times, Plas-Di-Splay's function was broadened to include the manufacture of many other specialized displayers for more effective presentation of smaller merchandise items.

The silkscreen section of Cantire Display Services prints in-store promotional material—banners, price cards and information posters—which are created by artists in the Design and Graphics department located at Home Office.

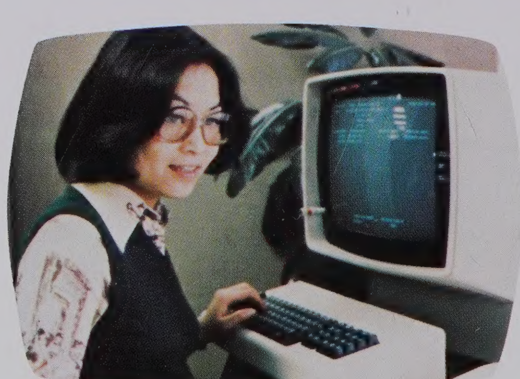
Stores made more energy-efficient in 1978

In mid year, preliminary steps were taken toward better "energy management" in our store buildings. A monthly bulletin prepared by our construction and maintenance department—*Energy Conservation*—began circulation to dealers, outlining methods of reducing consumption of electrical power and heating fuels in their buildings.

Initial efforts concentrated on reducing lighting levels to revised corporate standards, established following a research and test program conducted by a number of associate dealers in co-operation with Ontario Hydro. Subsequent bulletins issued guidelines for reducing consumption of energy by heating and air-conditioning systems. Recommendations were made for the installation of night set-back controls for these systems and for revisions of lighting circuits for more convenient control of light levels during periods of inactivity.

New store designs are being revised accordingly and better insulation values are now being specified to make buildings more energy-efficient. Roof spray- cool systems are also being evaluated to supplement energy-consuming air-conditioning units.

The majority of Canadian Tire dealers have taken positive steps to conserve energy in this era of shortages and from 10% to 20% reductions in energy billings have been reported since this program went into effect.



Stores, products,
services and people . . .
the essentials of
successful marketing

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